

The Utility Workers Union of America, AFL-CIO

PUBLIC COMMENTS BY THE UTILITY WORKERS UNION OF AMERICA ON HOUSE BILL 5184

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To the House Energy and Technology Committee



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COMMENTS BY THE UTILITY WORKERS UNION OF AMERICA, AFL-CIO

The Utility Workers Union of America represents 50,000 members in the electric, gas, water and nuclear industries across the United States, including 74 electric utilities. In Michigan, the Utility Workers Union of America (UWUA) represents 9,000 thousand workers at a variety of employers, including eleven (11) regulated, co-operative and municipal utilities. Our members are on the job 24/7 operating and maintaining significant portions of Michigan's generation, distribution and transmission systems. As such, these hard working men and women are uniquely qualified to offer a highly informed perspective on the effects of a restructured electric utility system. We appreciate the opportunity to provide comments to this Committee.

Data provided in the report by the Michigan Public Service Commission accurately depicts the changes that have occurred in Michigan's electric utility structure through two major statutory changes: PA 141 of 2000, and PA 286 of 2008. We feel that, in addition to considering raw numbers regarding choice usage, generation costs and rate variations, policy makers must also consider issues and impacts to reliability, long-term viability of incumbent utilities and fairness between customer classes in their electric choice deliberations. These are issues that should act as a compass in deliberating on whether or not to restructure.

There are three separate policy directions with regard to Michigan's energy structure:

1. Full Deregulation

The UWUA has members in several states that fully deregulated their electric utilities, including Ohio and Pennsylvania. While market forces often create short-term rate reductions, for many customers these savings have been ephemeral and rates have quickly climbed (in some states, such as Pennsylvania, to staggering levels). Moreover, most of the advantages of deregulation are garnered by large users who have the market power to take full advantage of the market. Conversely, cost savings for small users have been especially short-lived (if obtained at all).

In addition, the uncertainty to incumbent utilities created by full deregulation has caused extensive long-term damage to utility infrastructure, staffing levels and reliability. The frequency and duration of power outages has risen steadily in the U.S. since 2000. Part of this trend can be blamed on deregulation of the electric industry. Although the transmission and distribution of electricity has remained a regulated monopoly, the system was not designed to support long distance transmission of electricity, a practice known as "retail wheeling," which is prevalent in a deregulated system.

Recognizing the shortcomings of deregulation, there has been a recent trend in other deregulated states to return their electric systems to a fully regulated environment. As a matter

of fact, seven states; California, Virginia, Arkansas, New Mexico, Nevada, Arizona and Montana have either halted their de-regulation models or have re-regulated.

The unpredictability of wholesale markets creates winners and losers. Just this past winter, many residential choice customers in Pennsylvania were facing crushing bills after switching from their traditional electric suppliers. Unlike mortgage rates, swings in variable-rate utility prices can be sudden and dramatic. This is a product that is consumed before the customer knows the cost. The job of the Public Service Commission is to set rates based on how much it costs a utility to make and distribute electricity and to keep those rates at a reasonable minimum. Michigan needs to have an energy policy which provides predictability from which all users benefit.

2. Continuation of the current hybrid system (including possible choice cap modification)

The State of Michigan is one of only two states in the entire country to have a hybrid electric market structure. The current hybrid system attempts to combine the positive aspects of the free market with the reliability and safety of a regulated system. Before the advent of the 10% customer choice cap, the system was behaving much like fully deregulated systems in other states. After a brief period of lower electric rates (mainly due to a temporary statutory rate cut and freeze), prices began to increase rapidly. Meanwhile, incumbent utilities were struggling to obtain the capital necessary to properly maintain infrastructure and capacity needs. The single most important problem for a deregulated electric system is that of incentivizing construction of new generation, the absence of which will doom a system to eventual massive price hikes.

PA 286 improved this situation by capping customer choice and giving incumbent utilities a guaranteed rate base they could depend upon. The choice cap allowed incumbent Michigan utilities to plan for the construction of new generation, though this has been largely delayed due to the Great Recession that began in 2008. Although the choice cap stabilized the electric utility system in Michigan, it has failed to provide widespread efficiency and rate relief for the vast majority of Michigan customers. While the number of commercial and industrial users seeking to receive their electricity from alternative suppliers has grown as market rates have come down, the next price spike could send them running back to incumbent utilities. This forces the worst of all worlds as incumbent utilities must maintain reserve capacity for all customers while only being able to collect rates from 90%. Increasing the choice cap, as has been proposed by many large users, would further exacerbate this problem.

3. Full Regulation

Michigan's electric utility system was fully regulated for most of the 20th century, only shifting to a hybrid system in 2001. The reason for full regulation was to ensure accessibility for all users, eliminate market manipulation and to provide a reliable system of electric generation and

delivery. Regulation created and put a value on public infrastructure. During this time customers had competitive rates with similar states while enjoying a reliable and fair system. Advantages between customer classes actually leaned toward residential customers, although this ended when rate skewing was eliminated in 2008.

While there are certainly drawbacks to a fully regulated electric utility system, it is the only option that provides long-term reliability, predictability for capital investment, and fairness between customer classes. The UWUA believes that these considerations are no less important, and perhaps more so, than rates and market choice.

Recommendation:

The UWUA urges policy makers to strongly consider long-term stability, predictability and fairness when considering electric utility regulation and customer choice. We believe that at a minimum the customer choice cap should remain at 10%. We also believe that a move back to a fully regulated electric utility system should be strongly considered. Wholesale power prices have shown to be reactive to weather changes as well as generation constraints. There is much uncertainty on both a national and state level with regard to generation capacity, uncertainty that is being exacerbated by pending emissions restrictions from the EPA and capacity restrictions stemming from regional transmission organizations. In Michigan, 12 units have been identified as being potentially affected by new EPA rules on existing power plants. What this means to wholesale and retail electricity rates is uncertain, and restructuring during a time when generation may be removed from the grid could have significant impacts on wholesale and retail costs. The UWUA believes that only a fully regulated system can ensure effective service quality standards, accessibility, responsive customer service, and consumer protections that will encourage investment and job growth.

Thank you for giving us the opportunity to provide comments on this matter.